

I. Origination

Application: Borrower

↓
Originator

Underwriting Analysis

- income verification
- credit history
- other assets
- down payment

Reject

Investors:

Pricing/Terms

- monthly payment
- amortization period
- capped maximum return
- early sale conditions

Accept

Closing

investor - borrower: mortgage principal \$

borrower - investor: mortgage
loan agreement
equity participation certificate

borrower - seller: down payment \$
mortgage principal \$

seller - borrower: title

II. Amortization Period - months 1 through N

Payment (1)

Borrower → Periodic Principal \$ -- Servicer \$ -- Investor

- repayment
- process
- calculate avg amort. period principal
(total monthly principal outstanding
÷ # months since origination)

sale: i. determine realized appreciation

(net sale price - purchase price)

ii. calculate maximum capped annual return

(e.g., avg. amort. period index % + ____ %)

iii. multiply (ii.) by average annual principal

iv. divide proceeds

(e.g., if $X = [\text{net sales price} - \text{purchase price} - (\text{iii.})] > 0$,
then borrower retains X)

→ final principal payment \$ → servicer \$ -- investor

- process

- recalculate avg amortization
period principal

Payment (N)

III. Post Amortization Period

sale: i. determine realized appreciation

(net sale price - purchase price)

ii. calculate maximum capped annual return

(e.g., avg. amort. period index % + ____ %)

iii. multiply (ii.) by average annual principal

iv. divide proceeds

(e.g., if $X = [\text{net sales price} - \text{purchase price} - (\text{iii.})] > 0$,
then borrower retains X)

FIGURE 1

FIGURE 2

Figure 3: Principal Amortization - Equity Participation Mortgage v. 30-yr Fixed Rate @ 7.28%
Original Principal Amounts with Same Monthly Payment

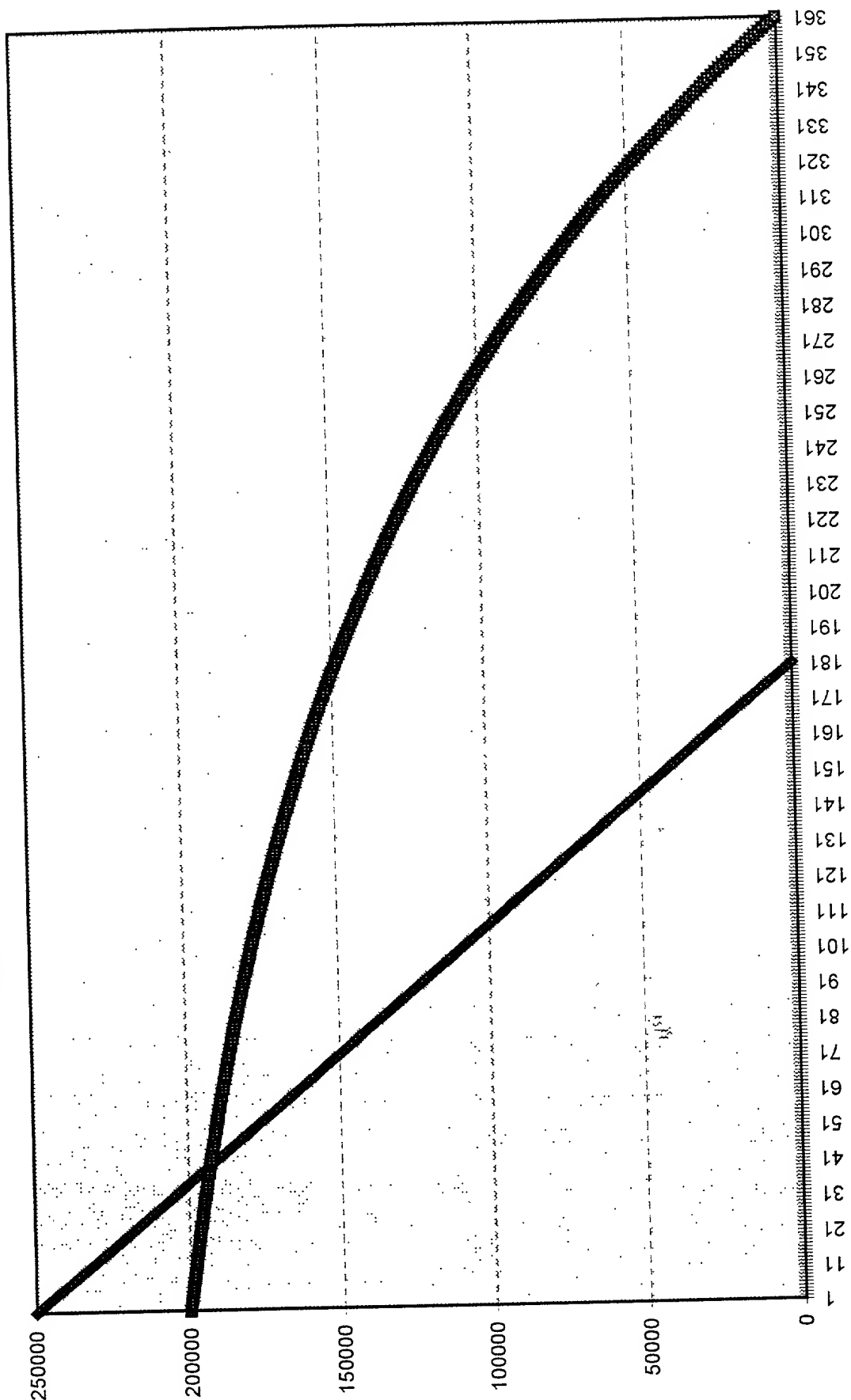


FIGURE 3

Median Sales Price of Existing Single Family Homes: 1968 - 1996

Source: National Association of Realtors, Existing Home Sales Survey

